

China Pakistan Economic Corridor-- Role of Business as the Engine of Growth

➤ **Creating a Global Export Powerhouse**

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Introduction

- CPEC is being hailed as an economic game changer by the Government of Pakistan.
- The initial \$ 46 billion plan envisaged to link Pakistan's Gwadar port with China's Xinjiang province and included \$33 billion investment in Pakistan's Power sector
- The project firmly embeds Pakistan in the Chinese strategic "belt and road" initiative.
- The link will provide China with a direct access to western Indian ocean, while it provides opportunity to Pakistan to become a logistics hub for Pakistan, Central Asia, western Asia and Western China.

INTRODUCTION

- The link will provide an opportunity for both countries to promote greater economic integration of the two economies
- Whether it becomes a game changer for Pakistan will depend on the extent of future Pakistan China economic integration and the commitment of both the governments of Pakistan and China towards that end

ROLE OF AN ECONOMIC CORRIDOR

- An Economic Corridor generally connects regional economic centers in the most efficient and convenient manner.
- This requires an integrated Logistics System of Hardware and Software
- It is backed up by economic and logistics agreements that boosts regional economic growth through free trade and bilateral investment agreements that promote regional economic cooperation economies of scale in financial, production, distribution and marketing systems.

ROLE OF AN ECONOMIC CORRIDOR

- The logistics system requires huge amounts of Investments, conducive regulatory environment and specialist expertise to manage 'transport and logistics' as a system designed to facilitate production and promote trade flows.
- The return on investment on logistics in turn depends on economic reforms that expand the volume of trade that flows through the logistics hub on a sustainable commercial basis.

Geopolitical Environment– Emergence of China as an Economic Super Power

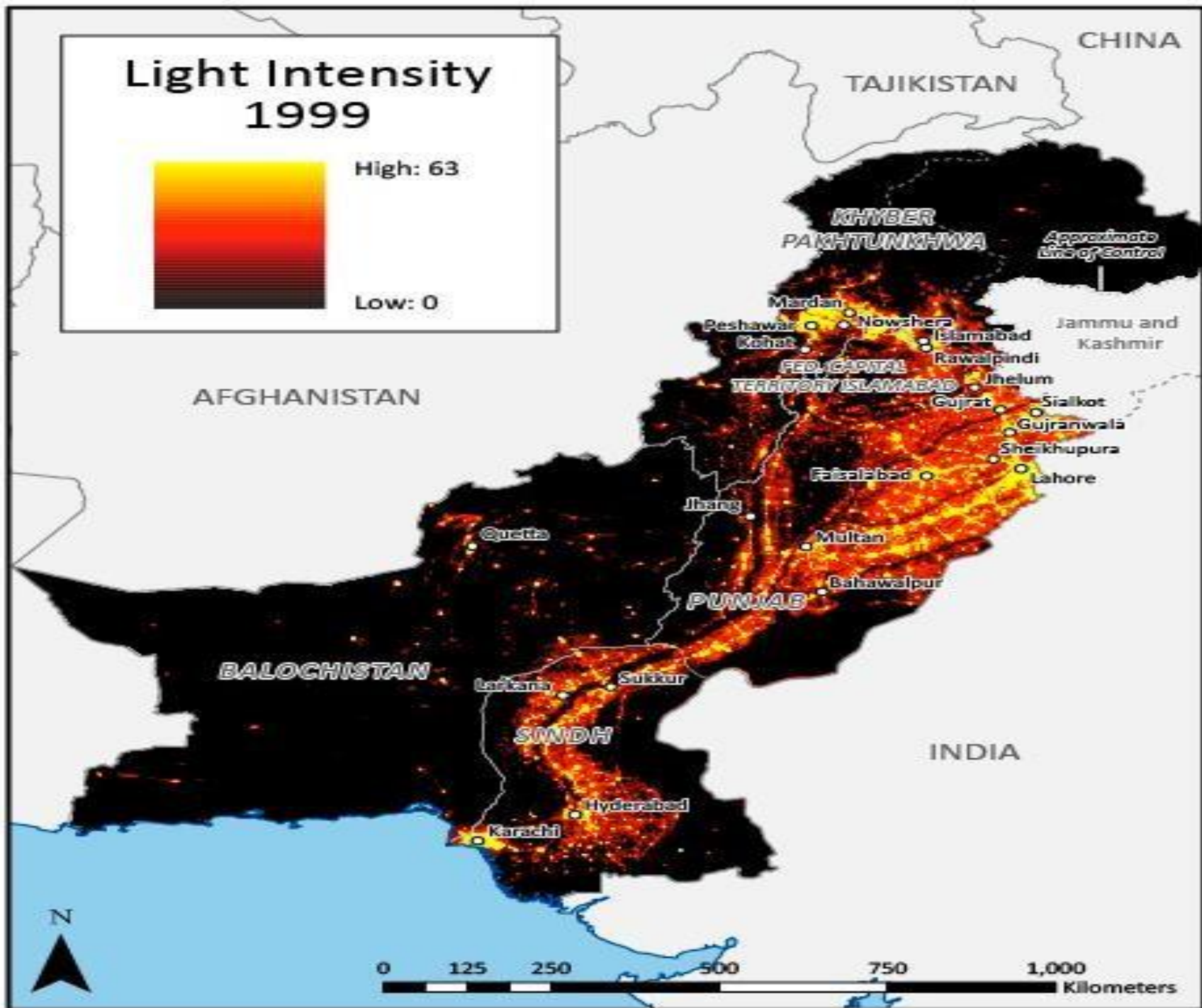
- China is now one of the the worlds largest economy with GDP on PPP basis of \$18 trillion
- It has the largest foreign currency reserves of \$3.6 trillion
- It is the Largest exporter \$2.34t and 3rd largest importer \$1.96t
- It is becoming the largest trading partner with more countries as compared to the USA
- Increasingly it is becoming the largest donor for developing countries
- It has the highest savings rate and is the largest holder of American debt.
- While America is talking about building walls it is actively following Global strategy to link with markets and economies

Emergence of China

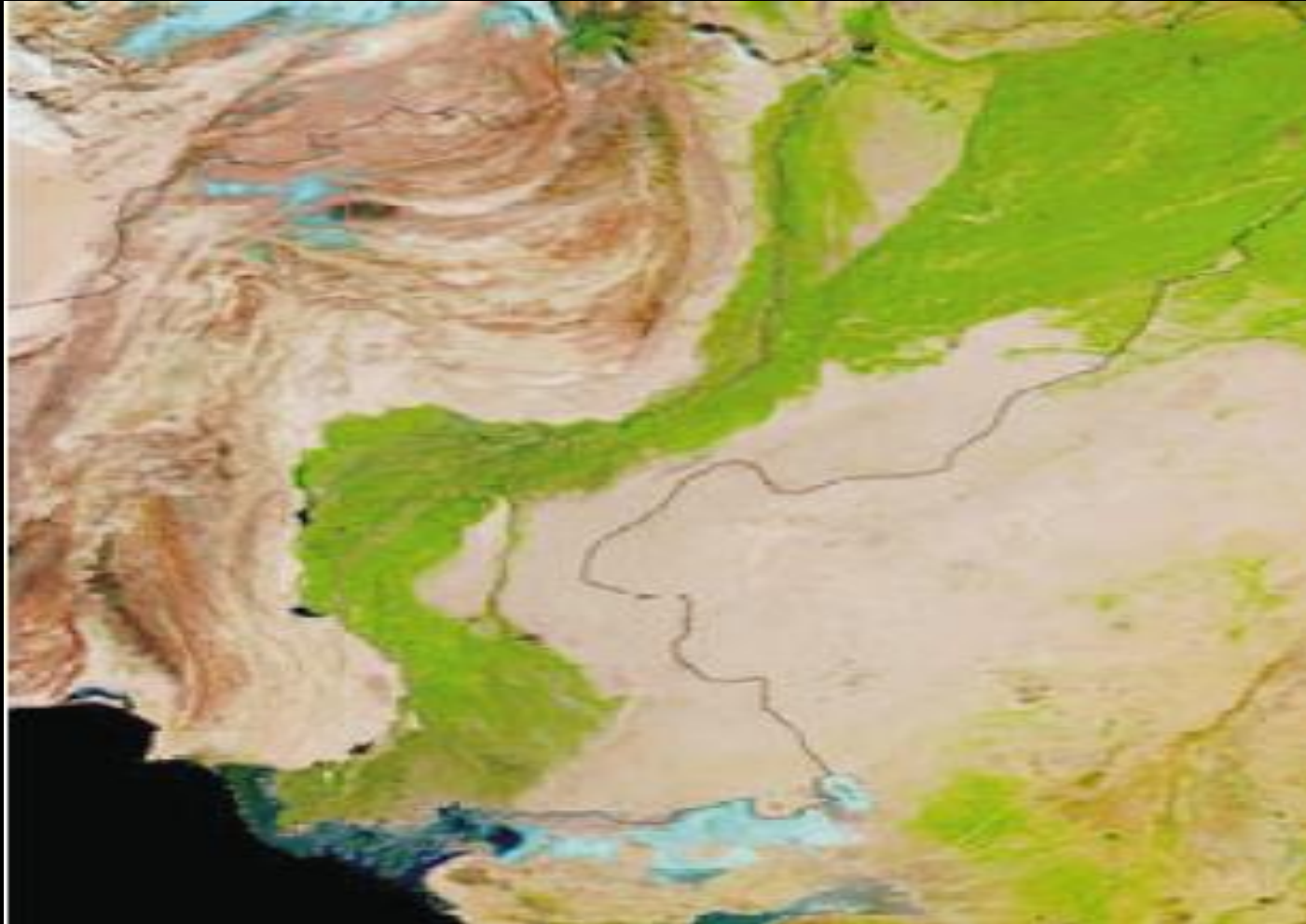
- With the world's largest population that is increasingly becoming rich, China is switching from an investment driven growth strategy to a consumption driven growth strategy with major opportunities for neighboring Pakistan
- China can be a big source of investment capital, technology and knowhow for developing Pakistan's Economic potential, generating growth of 8 to 10 % per annum, boosting exports and generating economic prosperity over the next 30 years
- This would require pursuing a national agenda for economic integration with China
- This will enable Pakistan to sustain its national security with an underpinning of a strong economic base in face of a resurgent and aggressive India

Youthful Pakistan

- Sixth largest country with a population of 210 million– with 120 million under the age of 25
- Western Indian Ocean rim country truly the heart of Asia
- Rich in natural resources and minerals
- Large alluvial plains with an underdeveloped and “sub-optimally” used Indus river system
- Inward looking \$ 300 billion market economy growing at an anemic growth of around 4 percent
- Misgovernance and corruption its Achilles heal
- Lacks investment capital and has poor human development indices



Early Harvest Programme: Bring 10 million acres of new farmland into cultivation



High Value Agriculture

Target \$ 100 billion
Food exports to
China by 2025.

KP one million acres
Baluchistan 2 million acres
Eastern Sind 3.5 million acres
South Punjab 3.5 million acres

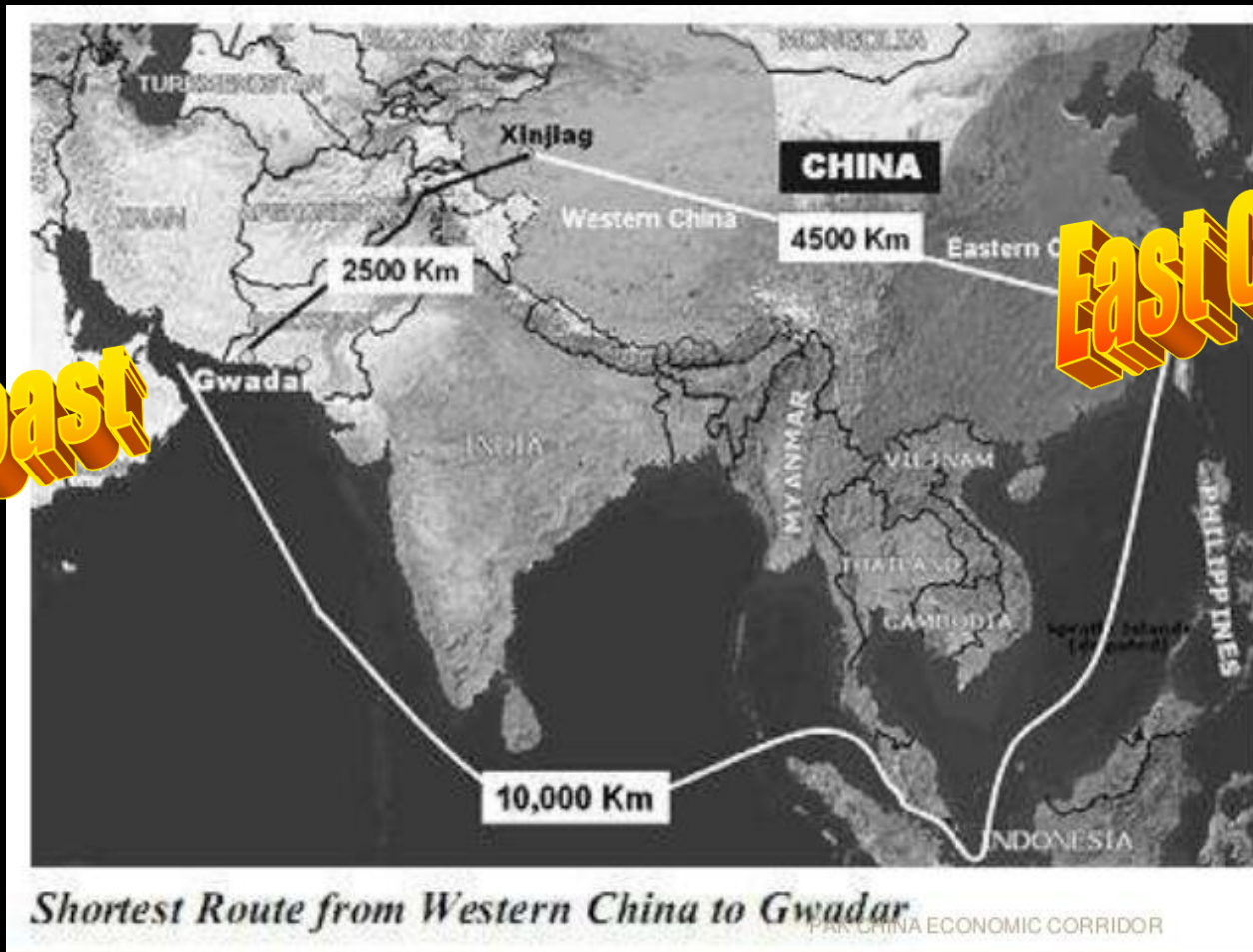


Pakistan-- China's West Coast

No other country can play that role

west coast

East Coast



NEED TO SEAMLESSLY INTEGRATE THE ECONOMIES OF PAKISTAN AND CHINA

EXPORT POWERHOUSE– TRANSPORT AND LOGISTICS

- ▶ CPEC creates economic and trade connectivity within Pakistan creating a single integrated Pakistan economy.
- ▶ CPEC Facilitates and caters to a percentage of Exports of China (\$2 trillion a year)
- ▶ CPEC facilitates and caters to a percentage of imports of China (\$2 trillion a year)
- ▶ CPEC creates regional connectivity
- ▶ CPEC Facilitates foreign investment in Pakistan as a manufacturing and logistics Hub of the region

TRADE IMPERATIVE– TRANSPORT AND LOGISTICS

- Need to plan for potential trade flows of \$500 billion, of which 50% (\$250 billion) will be moved by truck and remaining through Rail and Pipelines through coastal and border ports of entry and exit (POEs).
- five primary modes of transportation will be used : rail, truck, air, ocean vessels, and pipelines.
- surface transportation, which includes truck, rail and pipeline transport, will carry the majority of the total dollar value of goods or services traded.

TRADE IMPERATIVE– TRANSPORT AND LOGISTICS

- ▶ **Cross border trade is conducted at the first entry point for imports and exports--airports, seaports, and border ports of entry for truck and rail imports.**
- ▶ **International and domestic supply chains may also have load centers at strategic locations along their highway or rail corridors, particularly near large metropolitan markets.**
- ▶ **These inland ports/special economic zones provide a range of services to shippers and have been most strongly linked to the growth of world Class rail carrier intermodal business.**

PUBLIC PRIVATE PARTNERSHIPS IN TRANSPORT AND LOGISTICS

- **To turn CPEC into an engine of Growth and Prosperity, Government of Pakistan in collaboration with the private sector has to create a superb Transport and Logistics System to underpin CPEC.**
- **This will require a comprehensive Transport and Logistics Strategy built around the private sector and a five year plan along with the institutional structure to build the sector.**
- **It must establish the National Integrated Logistics and Transportation Authority (NILTA) and empower it to develop the strategy and the five year plan and ensure its implementation.**

PAKISTAN

Long Term Alignment

Length 2,442 km

Route-1 via Quetta

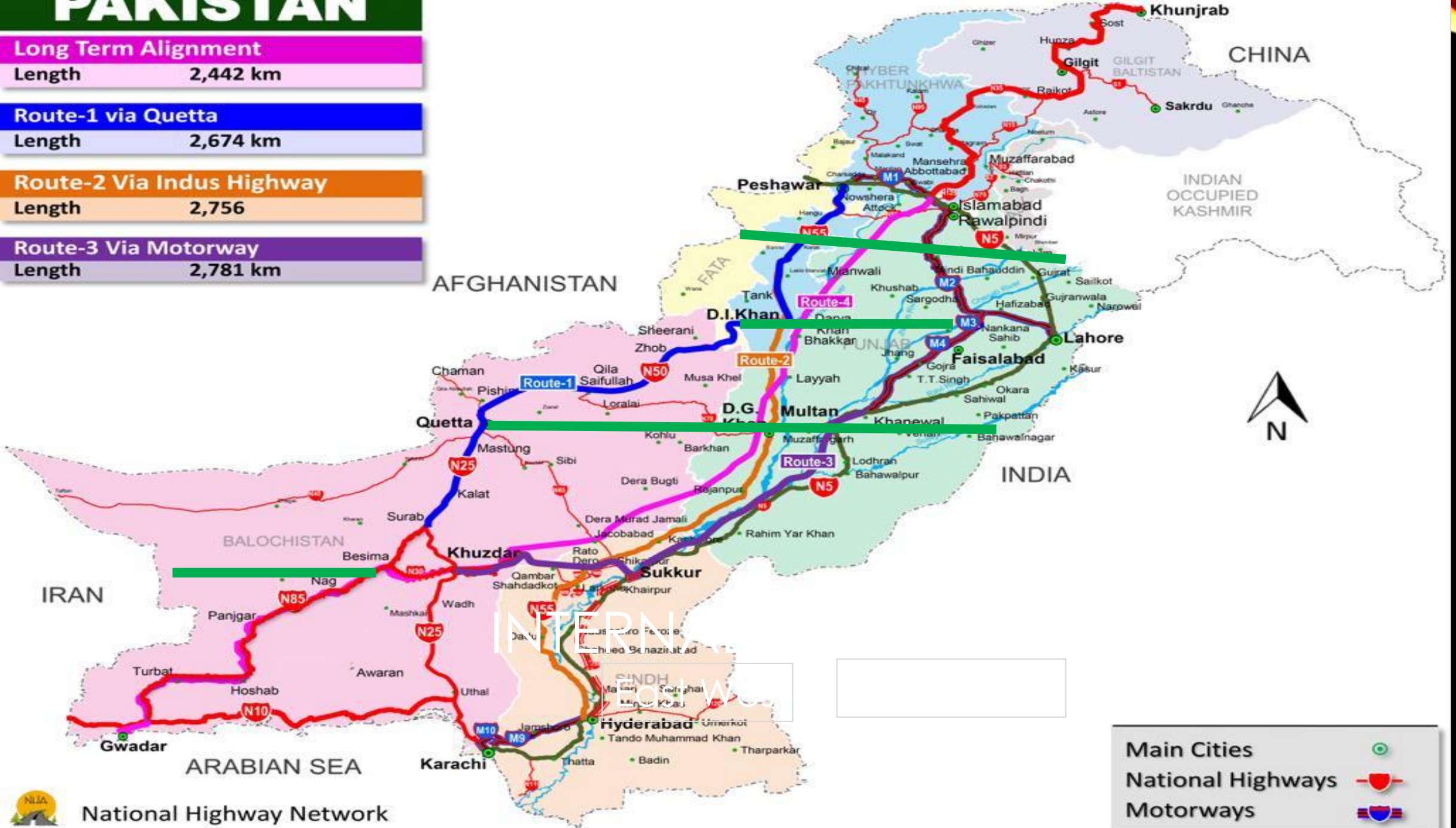
Length 2,674 km

Route-2 Via Indus Highway

Length 2,756

Route-3 Via Motorway

Length 2,781 km



INTERNATIONAL PORTALS



National Highway Network

Main Cities	
National Highways	
Motorways	

The Global Competitiveness Report 2016-2017



TOTAL COUNTRIES: 138

	Pakistan	Sri Lanka	India	Bangladesh
Global Competitiveness Index (GCI)	122	71	39	106
Basic Requirements (60%)	126	64	63	105
1. Institutions	111	57	42	125
2. Infrastructure	116	73	68	114
2. Macroeconomic Stability	116	96	75	65
3. Health and Primary Education	128	37	85	105
Efficiency Enhancers (35%)	113	83	46	107
5. Higher Education and Training	123	68	81	118
6. Goods Market Efficiency	117	66	60	96
7. Labor Market Efficiency	129	128	84	120
8. Financial Market Sophistication	107	64	38	99
9. Technological Readiness	119	101	110	122
10. Market Size	29	60	3	38
Innovation and Sophistication (5%)	85	46	30	116
11. Business Sophistication	95	53	35	107
12. Innovation	75	43	29	121

Competitiveness and Productivity is the Key for becoming export power house

- ▶ How can a country improve its competitiveness, become an exports powerhouse, create jobs, reduce poverty, and boost shared prosperity?
 - ▶ improving productivity through analyzing the dynamics of firms, industry value chains, clusters, and urbanization.
 - ▶ Participation in larger regional and global markets offers opportunities and incentives to raise productivity
 - ▶ Improving Investment climate for FDI
 - ▶ Diversifying Exports
 - ▶ Remove Barriers to Firm Growth

South Asia's Turn -- World Bank Report

- ▶ Which region will become the next global factory?
- ▶ As the work force ages and labor costs rise in China and other East Asian countries, many eyes turn to South Asia.
- ▶ the population of the region's mega agglomerations and sprawling cities is expanding at a rapid pace. By 2030 more than a quarter of the world's working adults will live in South Asia.
- ▶ South Asia is less competitive than its neighbors and global benchmarks when it comes to attracting investment, penetrating tough markets, diversifying and upgrading its products, and integrating within the region. (last cheap labor frontier)

Eliminate high barriers to firm growth

- ▶ **high dispersion of productivity levels across firms and a strong bias towards small, inefficient, and slow-growing firms indicate potential to raise efficiency is large.**
- ▶ **Barriers to the growth of firms can be found in policies. Across the region, licensing and size restrictions ,**
- ▶ **labor regulations that increase the cost of hiring and firing,**
- ▶ **financial sector regulations with inadequate bankruptcy laws may have limited the ability of efficient plants to grow and enabled inefficient plants to survive.**
- ▶ **Taxes or labor costs that affect larger firms more than smaller firms may reduce the return on investment in large firms.**
- ▶ **Impediments to reaching foreign markets, both from trade policy and high costs of logistics, can also impede expansion.**

Develop urban ecosystems and GVCs

- ▶ what is missing for South Asia to become competitive are **urban ecosystems providing large markets for skilled labor, large tracts of industrial land, and world class logistics.**
- ▶ Participation in global value chains (GVCs), and **exposure to international markets more generally, is associated with higher levels of firm productivity in South Asia.**
- ▶ **Access to foreign markets—either through trade or licensing foreign technology— brings stronger outcomes in terms of ICT adoption and innovation**
- ▶ **Only 20 percent of its exports coming from GVC products, South Asia is way behind East Asia in GVC participation.**

URBANIZATION, GLOBAL VALUE CHAINS AND CAPABLE FIRMS ARE ESSENTIAL

- In addition to policies aimed at improvements in business environment, three policy areas that have the potential to raise productivity across the country are important.
- **These include policies to maximize benefits of**
 - **agglomeration economies, (urbanization and clusters)**
 - **better connect to global value chains, and**
 - **boost firm capabilities.**
- They also include, in the critical case of the agribusiness value chains (amounting to one third of South Asia's GDP), **the need to reform agricultural markets, price regulations, product standards and large poorly targeted subsidies.**

National Policy Focus

- ▶ **Accelerating productivity growth should be front and center on the policymakers' agenda , to ensure continued and sustained progress on job creation, growth, poverty reduction, and shared prosperity.**
- ▶ **Movement of resources from agriculture to higher-productivity agro business, manufacturing and services.**
- ▶ **The movement of labor from subsistence agriculture to industry and services to substantially reduce the large differences in productivity across sectors.**
- ▶ **Important mechanism for productivity growth operates within sectors through movement of resources from less productive to more productive firms.**

Leveraging on CPEC to Make Pakistan an Export Power House -- Roadmap

- **Develop a comprehensive national strategy by the amalgamation of multidimensional policies across sectors for boosting Pakistan's competitiveness and productivity**
- **A strategy that promotes complementary appropriate technologies, knowhow, skills and foreign investments needed to develop Pakistan's production, manufacturing and exporting sectors**
- **Pakistan must open and deregulate its economy to modernize it and increase the competitive capacity of its national enterprises, by creating a conducive investment climate that would enhance the globalization of its industries with Chinese knowhow, firms and capital.**

Dovetailing CPEC With Vision 2025 Pakistan's National Development Strategy

- **Develop Strategies For Expansion, Modernization and transforming the wealth creating production sectors; (Manufacturing, Mining and Agriculture)**
- Increasing Productivity and competitiveness through technology induction and costs reduction: in Agriculture, Engineering, Electronics, Consumer Goods , value added Textile industry;
- The expansion of the services sector, which includes the new economy (domestic markets, IT, Design, Knowledge economy, Finance, Accounting)
- Boosting and modernizing Infrastructure and the Construction and contracting Industry, (job creating segment)
- **Fully develop the water and power potential of Pakistan**

Pakistan China CPEC Frameworks

- **Government of Pakistan goal should be to establish the working frameworks and agreements for a financial, commercial, manufacturing and knowledge alliance with China.**
- The frameworks and agreements should facilitate Pakistan to gain the requisite knowledge, competitiveness and productivity in various segments of the economy.
- **Revisiting The Pakistan China FTA** should play a leading role in the recovery of Pakistan's economy. In addition Concluding new investment treaties to facilitate greater growth of FDI and bank financing from China may be needed
- **Spell out targets and timelines for smooth implementation**

CPEC FTA and Pakistan

- CPEC alongwith an effective FTA can make Pakistan one of the most attractive investment and manufacturing sites in the world.
- Hundreds of American, Canadian, European, and Asian companies may relocate facilities for manufacturing goods that are exported to other markets, from food and agri-business products to automobiles and auto-parts to an ample electronic products range, light and heavy engineering, shipbuilding, chemical, paper, steel, etc.
- For these foreign investors, the factor of preferential access that Pakistan has to the emerging Chinese market will increasingly become very attractive to transfer production to Pakistan for export purposes.
- Lower input and energy costs, costs of transportation, financial costs, etc. coupled with the low cost of the Pakistani labor will be one of the most important factors to consider; Target \$200 billion exports

Possible Targets 2025

- GDP \$700b-\$1000b from current level of \$300b
- External balanced trade of \$700b/year currently \$70b
- 70 percent with China
- FDI \$50 b per year with 50% from China
- 50% in manufacturing
- Several thousand implementation agreements between G2G, G2B, B2B must have been signed between each country
- 500 joint ventures between top Pakistani and Chinese companies

Possible targets 2025

- ▶ 500 top Chinese multinationals have established base in Pakistan
- ▶ 25 million new jobs have been created
- ▶ 100 flights a day between Chinese and Pakistani cities
- ▶ 25 million Pakistanis and Chinese visit each other country every year
- ▶ 1 million Pakistani students studying in China

Possible targets for 2025

- Chinese vocational and higher education network has been created in Pakistan
- CPEC infrastructure has been completed
- 5% of Chinese external trade routed through Pakistan
- 10000 MW of hydel power has been commissioned
- 10000MW of solar power has been installed
- 20 maf of additional water reservoirs have been created

Framework of How Governments Organize Development

- ▶ National goals are set-- general vs precise based on national vision.
- ▶ Goals are Converted into policies – fiscal, monetary, trade, FDI, defense, infrastructure, social entitlements, privatizations, nationalizations, competition etc
- ▶ Strategy implementation is organized around
 - ▶ Economic structures -- consumption, investment, taxes, agriculture, manufacturing, services, mining
 - ▶ Institutional structures– political, ministries ,bureaucracies banking, courts, police, military,
 - ▶ Resources-- Natural, Human, Capital
- ▶ Effective Usage--Markets and systems, Technology and productivity, Monitoring and feedback

PILLARS OF CPEC

- **Spatial Connectivity**
- **Logistics Connectivity and Systems**
- **Economic Policy Connectivity**
- **Institutional Connectivity**
- **Financing Connectivity**
- **Skills and Technology Connectivity**
- **Sector to Sector Connectivity**
- **Business to Business Connectivity**
- **People to People Connectivity**
- **Trade Connectivity**

PAKISTAN CHINA COLLABORATION NEEDED FOR GAME CHANGER ENVIRONMENT

- Coastal development strategies
- Inland development strategies
- Border development strategies
- Cross border strategies
- Urbanization strategies and infrastructures
- Pakistan China economic integration and harmonizing strategies
- Entering Chinese markets strategies for private sector
- Industrialization strategies
- Investment and Financing
- Science and Technology transfer strategies
- Defense Production and higher technologies sharing strategies
- Agro business strategies
- Mining sector
- Services sector
- Education sector
- Skills development
- Infrastructure sector
- Energy sector
- Indus river system development strategy (storage, power and transport)

New Organizations for planning and implementation

- **Coastal Development Authority**
- **Inland Development Authority**
- **Infrastructure Authority**
- **Cross Border Facilitation Authority**
- **Corridor Management Authority**
- **Private Sector Mobilization Authority**
- **Trade with China Authority**
- **Oil and gas pipelines Authority**
- **Logistics Development Authority**
- **Pak China Special Economic Zones Authority**
- **Pak China Transfer of Technology Authority**